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Bringing co-operation with ACP countries into the EU Budget: Budgetisation of the EDF

The European Development Fund and its relations with the EU Budget

The European Union's (EU) development aid to countries in Africa, the Caribbean and the Pacific (ACP) largely comes from the European Development Fund (EDF). The EDF is an inter-governmental agreement of the EU Member States, and is not part of the regular budget of the EU. Consequently the management of the EDF and its resources is not the same as that for the EU budget, where the European Parliament has a co-decision role with the Council.

During 2011 and 2012 the Multiannual Financing Framework for the EU will be prepared, negotiated and adopted setting out the EU's budget for 2014-2020. The Commission has led a review of the EU's budget and of role that the budget should play within the Union. In this context the question of the relationship between the EDF and the EU budget is once more on the table.

Actors' positions on budgetisation

Proposals for budgetisation go back to the early 1970s.

- The **European Commission** has been consistently in favour of the incorporation of the EDF within the EU budget, arguing that the increased flexibility that would result, and the simplification of procedures, would increase the effectiveness and efficiency of the EU's aid.
- The **European Parliament** has also tended to favour budgetisation as it would increase their role in overseeing the management and use of EU development assistance to ACP countries. However some concerns remain within the Parliament that the inclusion of the EDF within the EU budget could result in the diversion of funds away from ACP countries, unless binding provisions are put in place.
- The **EU Member States** have been the main opponents. The potential cost implications has been the main determining factor for a number of Member States who would see their overall contributions towards the EU increasing if the EDF was budgetised. Concern has also been expressed by Member States that budgetisation would diminish their scrutinising role.
- The **ACP states**, which have no formal role in determining the outcome of the debate, have also expressed concern that this change would be detrimental to their interests as it would reduce their involvement in decision making, and give more unilateral decision making power to the EU, particularly the European Commission.

The implications of the Lisbon Treaty

The Treaties of the European Union have included a clause that excludes the EDF from the provisions of the Treaties. This has meant that Budgetisation required an amendment to the Treaties of the EU, requiring the agreement and formal ratification of all EU member States. The Lisbon Treaty, effective from 1 December 2009, introduces the necessary changes thus enabling decision for incorporating the EDF within the EU budget to be made by a decision of the Council. Thus, with the amendments to the Treaties, budgetisation of the EDF is easier to achieve.

In the coming months there will be a focus on potential reforms to the EU budget, with a view to determining the structure and use of the EU's budget for the period 2014 to 2020. Within this context consideration will certainly be given to budgetising the EDF.

Implications of budgetisation for the EDF

Before any decision is taken a considered debate must take place between all actors involved, and in particular with those who are to gain or lose most, the ACP. The issues that need to be addressed can be identified as the following:

1. Procedures and regulations

The integration of the EDF into the EU budget would mean that it would be bound by the regulations and procedures covering the budget. While the financing framework of the EU's budget is provided for by the financial perspectives adopted every 7 years by the Council, the budget is established on an annual basis by the budgetary authority – the Council and the European Parliament. This is different from the EDF, which is established for a 5 year period (the 10th EDF is exceptionally established for a 7 year period) with the contributions being provided by the Member States as they are needed.

Under the annual budget the level of commitments and disbursements that are possible are defined both by the terms of the financial perspectives and the budget adopted for the year. While there is recognition of the need for multiannual commitments, the ability to realise these in practice is constrained by the annual nature of the establishment of the budget.

Additionally, it is possible for budget resources to be moved between budget lines inside headings of the budget. Transfers from one big heading to another, on the contrary, require a review of the ceilings of the multi-annual financial framework and are very difficult to obtain. Yet, there is a possibility that resources initially established for supporting development actions in ACP countries could be diverted for use in other regions or purposes unless provisions were included in the budget to prevent this from happening.

2. The political dimension of development cooperation

Over the past decade there has been increasing support for the development objectives identified by the international community, including the EU, which places poverty eradication as a primary goal. The adoption of the Millennium Declaration in 2000, and the resulting Millennium Development Goals (MDGs) are recognised development objectives. At the same time there has been increase emphasis on including other issues (such as migration, the fight against terrorism, security, and climate change) in the cooperation policies towards developing countries. This has resulted in concerns being expressed about the danger of development co-operation being marginalised.

It can be argued that the EU's co-operation with the ACP has been the most advanced form of co-operation between the EU and developing countries. The adoption of the Development Cooperation Instrument (DCI), and the European Neighbourhood Partnership Instrument (ENPI) in 2007 increased the development policy focus of the EU's cooperation with developing countries outside the ACP. This arguably established a single development policy for the EU's

relations with all developing countries. However, the Cotonou Agreement is a balanced Convention and its focus and content should not be lost.

The Lisbon Treaty identifies the prominence of development policy objectives for the Union's cooperation with all developing countries, including the ACP. The Treaty also seeks to increase the effectiveness of the EU's political foreign policy instruments. The appointment of an EU "Foreign Minister" and the establishment of a European diplomatic service will result in some significant changes in the way in which the EU manages its external policies. Within this context the relationship between the EU's development policy and other external policies will be affected. This brings many opportunities for increasing the effectiveness of the EU's development cooperation, but also carries risks.

3. The cost of budgetisation

For Member States the cost of budgetisation is a significant factor in determining their position. The contribution to the EDF of each EU Member State is determined by a different proportional basis to their contribution to the EU budget that is based on a percentage of GNI and VAT. This means that for some Member States the integration of the EDF into the EU budget would increase the contribution that they are required to make, while for others it would diminish. Moreover, new EU Member States will start contributing to the EDF from 2011. Since the next time that the potential for budgetisation will be considered within the context of establishing the EU's financing framework for 2014 to 2020, the level of financing that will be made available for the EU's cooperation with ACP countries is likely to be determined in the context of the overall level of finance that the Member States will be willing to provide for the work of the EU. The review of the EU budget, that is scheduled to take place in 2010/11, will start this process. An important aspect of the future budget will be the need for resources to finance the External Action Service and its activities.

4. Flexibility

The Commission has argued that budgetisation would allow greater flexibility in utilising the funds for the ACP. This flexibility could take several forms:

- A flexible allocation per country (moving funds between ACP countries);
- A flexible use of funds for thematic and sectoral programmes, such as international funds (e.g. Water Fund); these would not be specifically for the ACP;
- The ability to support political initiatives such as the African Union;
- Flexibility in the use of funds for other purposes, e.g. peace keeping operations, migration, combating terrorism;
- The flexible use of humanitarian aid and EDF resources for humanitarian actions for which the required amounts can be high;
- A flexible use of funds to finance EU export subsidies.

As indicated above, budgetisation would introduce greater flexibility for shifting commitments in the budget to other regions. The Commission has argued that this would be balanced over the whole five years of any financing period. However, historically, the use of EU budget resources for development policy activities has been skewed towards Middle Income Countries, in particular those neighbouring the EU, while Low Income Countries with extensive poverty problems are receiving proportionately less. This does raise questions about how much the Budget Authority would defend the interests of the ACP in the general EU budget. The European Commission would also find it difficult to defend these also as it has no authority in determining the budget.

5. Speeding up disbursements

Over the past few years considerable emphasis has been given to speeding up the rate of disbursement. The decentralisation of Commission decision-making and implementation has been pursued to this end. Reforms have also been pursued to tackle the cumbersome approval procedures and the inadequate controls after completion. There remains a need to create processes for allocating funding with proper ex-post control mechanisms.

These are measures that address the heart of the problem, without which any increase in payments to ACP countries will not be possible. However, not all proposals for speeding up disbursements (i.e. transferring funds from EC accounts) will necessarily result in the ACP receiving more payments. The initiative to finance Global Funds have increased the disbursement rate for the European Commission, but has not necessarily led to an increased use of resources for the end purpose. It has tended to have the tendency to only move the resources between donors, away from the EU and into the accounts of other multilateral donors.

6. Partnership and ownership

These concepts are identified as being at the core of the EU's cooperation with all developing countries and are central to the Cotonou Agreement. However, the Commission has continually sought to reform the mechanisms for joint decision-making between the ACP and the EU on the grounds that they were ineffective and resulted in long delays. In reforming the Cotonou Agreement and the rules governing the management of the EDF, the role of ACP countries in decision making has been weakened. In a Commission assessment of the EDF and its implementation¹ that was produced in advance of the 2005 review of the Cotonou Agreement it was stated that:

"With lots of good will, the Community has taken financial obligations towards ACP-countries and has given away the power of initiative to these same countries, of which many do not have sufficient capacities to assume fully this responsibility."²

The role of the Joint Council of Ministers and of the NAO's was also questioned with the paper suggesting that:

"Ownership has gone so far that the Commission cannot steer the implementation process."³

The paper also sets out what the Commission wanted to steer – not only wanting to target "horizontal operations (HIPC, water, energy)" but it also sees that:

"The pressure has become all the more important since initiatives in other policy areas (migration, terrorism) have also started focusing on the possible use of funds reserved for development co-operation."⁴

The revised text includes a number of positive changes towards an increased role of national parliaments. ACP national parliaments are now considered proper actors of cooperation. The text foresees that ACP national parliaments, local and decentralised authorities and Non State Actors "should be provided with capacity building support in order to reinforce the capabilities of these actors, particularly with regards organisation and representation, and the establishment of consultation mechanisms, including channels of communication and dialogue,

¹ European Commission, Flexibility versus systemic constraints of the EDF system. Paper for the DEV DG's meeting, Brussels, 13-6-2003, DEV/A/1D(2003)

² *ibid.*, p. 1, emphasis MvR.

³ *Ibid.*

⁴ *Ibid.*

and to promote strategic alliances.” The question, however, remains to how far it will be achieved.

Experience in other regions with the programming exercise (CSP's NIP's and MTR), which is based on the same principles of ownership, partnership and participation show that:

- in general CSPs are written only by desk officers and without participation of civil servant counterparts in recipient governments, and so there is little if any ownership;
- consultation with non -state actors has not been part of most of these processes, and so there is little participation;
- funding is unilaterally decided by the EU, and so there is little real partnership.

The co-operation between the ACP and the EU in the EDF has reached a higher standard than any other co-operation instrument of the EU.

7. Democratic scrutiny, accountability and the role of the European Parliament

A greater accountability to the European tax-payer and involvement of the European Parliament would be desirable. This would increase the profile of the ACP in the political debates of the Union. The European Parliament is currently only involved in scrutinizing the European Commission's cooperation programmes in Asia and Latin America (Development Cooperation Instrument) and in neighbouring countries (European Neighbourhood Policy Instrument). This is not the case for the strategies of ACP countries. With the budgetisation of the EDF, it would also gain full democratic oversight over EU aid to ACP countries. Such involvement of the Parliament would help increase the consistency and coherence of EU external policy. It would also increase control mechanisms on the commitment and spending of the EU's assistance to ACP countries. A greater role for the European Parliament in setting priorities and control mechanisms related to the EDF should therefore be promoted.

8. Implications of the Lisbon Treaty and the establishment of the European External Action Service

With the entry into force of the Lisbon Treaty on 1 December 2009 there are a number of significant changes in the way that the EU manages the use and implementation of the EDF. The current proposals being put forward for the role of the European External Action Service (EEAS) could result in much of the programming cycle for the EDF being the primary responsibility of the new European diplomatic service. While the use of the EDF is governed by the Cotonou Agreement, putting key aspects of the programming of the EDF into the EEAS could lead to a re-orientation in the principal factors that determine the EU's response strategies towards ACP countries. Since the avowed principal role of the EEAS will be to safeguard the interests of EU citizens, this could result in the programming of the EDF being more responsive to the political objectives of the EU, rather than to the expressed needs of ACP countries. There is a clear potential for the concept of “country ownership” to be in contention with the primary objectives being pursued by the EEAS.

Budgetisation should be conditional

The integration of the EDF in the budget does make sense, but the interests of the ACP countries must be guaranteed. Therefore budgetisation should only be considered if conditions are realised that will safeguard the EU's development policy as well as the central innovative elements contained in the Cotonou Agreement and the EDF. Such conditions include:

- A consultation process with the ACP, in recognition of the principle of partnership that sets the framework for the Cotonou Agreement. This consultation should cover the idea of EDF budgetisation and its likely impact (both positive and negative) for ACP countries, on the implementation of the Cotonou Agreement and on the future of ACP-EU co-operation;
- Provision needs to be made for the continued involvement of the current ACP-EU structures (ACP-EU Joint Parliamentary Assembly, ACP-EU Joint Council of Ministers, ACP secretariat,...)
- Binding provisions need to be established that guarantee the resources for ACP countries will not diminish during the period covered by the Cotonou Agreement;
- Specific country and regional allocations continue to be the basis for co-operation with ACP countries;
- Country strategies established with clear and genuine participation civil society actors in which recipient countries' interests remain the basis for the multi-annual programmes with specific countries (or regions);
- Full democratic oversight by the European Parliament in cooperation with the Joint Parliamentary Assembly over the programming of country strategies, which implies allowing sufficient time for scrutiny;
- The principle of coherence as defined in the Lisbon treaty must be adhered to, such that trade, migration, aid and other relevant policies should reinforce the aim of poverty eradication;
- Clear country allocation criteria of the whole EU co-operation budget related to a poverty focus are presented and agreed by the Commission and the budget authority;
- The Long-Term protection of funds for the (mainly Low- Income) ACP countries in the budget cycle;

Conclusions

With the amendments to the Treaties of the EU made by the Lisbon Treaty that make budgetisation of the EDF easier to achieve it is more imperative than ever to ensure that there is an informed debate involving all interested actors. Such a debate will take place at a time when the Lisbon Treaty's mechanisms for managing the EU's external policies are being put in place. The next opportunity for the EDF to be budgetised is the EU's budget framework for 2014 to 2020. The planned review of the EU budget will be pursued in 2010/2011 leading to the negotiations between EU Member States that will result in the adoption of the financial perspectives for that period. It is in this context that consideration of EDF budgetisation needs to take place.

Annex 1: Legislative framework: Cotonou Agreement and the EDF

The Agreement between the EU and the ACP countries is governed by the ACP-EU Partnership Agreement signed in Cotonou on 23 June 2000 ('Cotonou Agreement'). It is an intergovernmental agreement between the Member States, which are party to the Treaty establishing the European Community and the Council of the European Union and the Commission of the European Communities on the one hand, and the States who are grouped within the ACP group of countries, on the other hand. States, including the EU Member States are individually party to the agreement – and, therefore, it had to be ratified by all the Member States' parliaments before it could enter into force.

In annex I, Financial Protocol, of the Cotonou Agreement the financial assistance to the ACP states is arranged. This annex establishes the details of EDF 9 for a period of five years commencing on March 1, 2000. The Protocol specifies the overall amount of financial assistance of €15.200 million and further broad specific allocations within the overall amount. The annex also specifies that any balances remaining from previous EDFs on the date of entry into force of the Financial protocol, as well as any amounts that would be decommitted at a later date from ongoing projects under these funds, will be transferred to the 9th EDF ('rolling over' and 'decommitting').

The annex arranges that the "overall amount of the Financial Protocol (..) will cover the period of 2000-2007" and hence the Fund will expire in 2007. No arrangement for a follow up fund is provided for through the Financial Protocol.

The annex also sets out that, before the expiry of the financial protocol, the parties shall assess the degree of realisation of commitments and disbursements, which shall "constitute the basis for re-evaluating the overall amount of resources as well for evaluating the need for new resources to support financial cooperation" under the Agreement.

Eurostep is a network of autonomous European non-governmental development organisations working towards peace, justice and equality in a world free of poverty.

Eurostep's Vision of a Responsible Europe in the World:

The European Union is a community, born of a desire for peace and stability, and based on a commitment to the values of democracy, equality, solidarity, social justice, human rights, tolerance and the international rule of law. It is also a unique model of cooperation amongst states, and a testament to the importance of recognising strength in diversity, fostering common interests, increasing collective prosperity and building strong and secure relationships. As it evolves in size and stature, these shared values must continue to shape Europe's cooperation both within and beyond its borders.

As a global player and as the largest provider of development aid, Europe now has both the opportunity and the mandate, to articulate an alternative to the increasingly unilateral world order by rooting its Foreign Policy in positive values. It should become the advocate of people living in poverty by fighting harder in favour of a fairer world in which injustices and inequalities are abolished, women are empowered, human rights are respected and the environment is protected.

Our Vision of Europe is a community of states, which honours our shared values and recognises our shared responsibilities - a Union that manifests itself in word and deed as a Responsible Europe.